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LISTED PROPERTY SHARES AS AN INVESTMENT CLASS

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Listed property shares, which now account for a market capitalisation of R350 billion on the JSE, are a distinct asset class. The Regulation 28 Requirements of the Pension Funds Act, for instance, allows 25% of the total assets of a Pension or Retirement Fund to invest in listed property shares, over and above the allocation to other equities (shares) that are allowed under this Regulation.

The unique characteristics of commercial property securities is that they pay both a high distribution (dividend) yield, as well as providing capital growth over time. This dual capacity as high yielding instruments as well as capital growing equities, separates property securities from other equities (which typically have substantially lower distributions) and from Bonds, which pay high yields, but offer little or no capital growth. Even preference shares, which pay a high dividend yield, typically linked to the prime rate of interest, normally trade at par, so show little or no capital growth over time.

Property Shares as an Income Bearing Asset

Over the past 15 years, the average distribution yield on listed property shares on the JSE has been close to 9% per annum. This is equivalent to the yield on a RSA Government bonds over the same period, or indeed, the total return for RSA Government inflation-linked bonds.

So, from a yield stream point of view, property shares pay equivalent returns to the so-called risk free investment class of Government bonds.

Property Shares as a Capital Growth Asset

The ability of property shares to pay high income returns is dependent on the rents they receive from the commercial properties (shopping centres, industrial parks, office buildings) they own. As rentals are linked to the Government bond yield, to start with and they escalate typically at above the rate of inflation on an annual basis, so long as property owners have well let buildings, rentals earnings can often grow at well above the inflation rate, thus giving significant real returns. This can be reflected in an appreciation in the value of property shares, through price increases on the JSE.

In addition, the commercial property owners will renovate their buildings, make constant improvements, purchase new buildings, develop properties, purchase other property portfolios or companies, etc. all of which adds to the capital value of their portfolios. In this way, property shares are also a net asset value (NAV) play.

The total return of listed property shares (using the JSE Listed Property index, SAPY) is compared with the total return on RSA Government bonds and inflation-linked bonds over the past 3, 5 and 10 years in the table below.

Total Return (% per annum) (with distributions reinvested)			
	3 Years	**5 Years**	**10 Years**
SA Listed Property Shares (SAPY)	19,11%	19,98%	22,99%
RSA Government Bond index (GOVI)	8,03%	9,58%	9,20%
RSA Inflation-linked bonds (LIBI)	9,95%	9,96%	10,21%
Source: Profile Data (31/8/2014).			

The extremely good total returns for the "hybrid" investment, listed property shares, make a strong case for considering this as a separate asset class, for inclusion in medium to long-term portfolios.

Kind regards

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